# Final Synopsis Submitted to Mangalore University for the Award of PhD Degree in Commerce

*Title of the Thesis*

## ETHICAL ISSUES AND DILEMMAS IN THE ACCOUNTING PROFESSION:

***A STUDY WITH REFERENCE TO PRACTISING CHARTERED ACCOUNTANTS IN KARNATAKA STATE***


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# LIST OF TABLES AND FIGURES


| Tables and Figures | Title | Page No. |
|---|---|---|
| Table 1 | Population and sample size for the current study | 9 |
| Table 2 | Ethical dilemmas | 12 |
| Figure 1 | Divisions of Karnataka | 10 |
| Figure 2 | Overall conceptual framework (Model) | 16 |

# CONTENTS


| SL. NO. | DESCRIPTION | PAGE NO. |
|---|---|---|
| 1. | List of Tables and Figures | i |
| 2. | Introduction | 1-2 |
| 3. | Statement of the Problem and Research Questions | 2-4 |
| 4. | Objectives | 5-6 |
| 5. | Hypothesis Development | 6-8 |
| 6. | Research Methodology | 8-14 |
| 7. | Scope of the Study | 14-15 |
| 8. | Literature Review and Overall Conceptual Framework (Model) Development | 15-16 |
| 9. | The Summary of the Key Findings | 17-20 |
| 10. | Implications | 20-32 |
| 11. | Suggestions | 32-33 |
| 12. | Limitations | 33 |
| 13. | Directions for Future Research | 33-34 |
| 14. | Chapter Scheme | 34-35 |
| 15. | Conclusion | 35-36 |
| 16. | Notes | 37 |
| 17. | References | 38-40 |

# Introduction

In today's increasingly complex, competitive and dynamic professional environment, the debate about ethical behaviour of professionals has gained much more importance than ever before. The integrity and ethical commitment of our leaders and professionals have never been more under scrutiny than now because of numerous scandals and revelations involving political, religious, professionals and business leaders, who have combined to produce an unprecedented erosion of public confidence and trust. For example, Enron lost both its economical and ethical status because of its corruption on a colossal scale. Rockness and Rockness (2005) pointed out thus:

> Enron's failure will most likely go down in history as not only one of the most spectacular financial failures, but also as a turning point in professional accounting regulation and corporate financial reporting. It was the driving force behind the Sarbanes-Oxley legislation (p. 35).

Satyam represents India's version of Enron (Suyampirakasam, 2010). The dawn of 2009 witnessed the collapse of Satyam Computers, one among India's largest outsourcing giants, in a heap of frauds. Satyam increasingly employed questionable accounting practices for years overstating revenues and inflating profits by $ 1 billion besides overstating assets and suppressing the liabilities. And it is surprising that India has not witnessed legislation like Sarbanes-Oxley Act so far, after Indian version of Enron.

The recent economic crisis has added fuel to the flames of earlier accounting scandals because of the fact that world witnessed the crisis within a very short span of time after the display of rosy pictures of financial performance by the corporations with help of so-called professional accountants. Clearly, an effective legislation to protect the interest of the investing public, in particular, and the interest of the members of the society, in general, is the need of the hour. Such legislation should be based on the 'social contract', the most basic feature, as Rawls (1971) held, of democracy. Further, such a legislation calls for understanding of ethical behaviour and of a wide range of factors involved in shaping ethical conduct. Accordingly, the current study was undertaken to make an earnest attempt to gain an insight into how

the ethical perception is formed by the practising chartered accountants (PCAs) of Karnataka by examining both the Institute of Chartered Accountants of India's (ICAI's) Code of Ethics (COE), and a set of factors considered to influence ethical judgement and behavioural intention. Any attempt to bring in legislation must be based on an understanding of the central problem in accounting ethics, namely, the management of the so-called equity/efficiency trade-off. The issue of equity/efficiency trade-off receives prominence, especially, in the context of profession of accountancy. This is because the tripartite (*i.e.*, professional, client and public) arrangement involved in the professional environment of accountants entails the consideration of view points from the perspective of all these three parties. Hence, it had been presumed that the 'ethical judgement' and the 'behavioural intention', formed by the professional accountants, would be affected by an array of factors that reflect the view points of all those three parties. The achievement of 'equity/efficiency trade-off' in the resolution of ethical dilemmas in a field like the profession of accountancy requires the consideration of the impact of both the prescriptive and the descriptive factors upon the ethical perceptions formed by the professional accountants. Accordingly, the current study has made an earnest attempt to gain an insight into how the ethical perception, in terms of the ethical judgement and the behavioural intention, is formed by the PCAs of Karnataka from the perspective of both the prescriptive and the descriptive factors.

## Statement of the Problem and Research Questions

It is high time the accounting profession protected the public interest. The vast scale of recent accounting scandals, fuelled by economic crisis that followed immediately after the show of the rosy picture by the corporate sector with the help of so-called professional accountants, emphasises that, now, the need for understanding and regulation of the professional behaviour is felt much more than ever before. Against this backdrop, the study makes an earnest attempt to gain an insight into how the perception of accounting ethics is formed by the professional accountants of Karnataka. In other words, the current study investigates the factors that influence the ethical perceptions. Koehn (2000) points out that a "practical judgment is at the very least, crucially dependent upon perception" (p. 4).

Perceptions of ethical issues depend upon personal and situational factors. Certainly, as Etheredge (1999) points out, culture can be expected to influence the perceptions of the role and importance of ethics and social responsibility in organisational effectiveness. The issue of ethical behaviour and independence continues to be an area of intense interest for both practitioners and academics worldwide (*e.g.*, recent Securities and Exchange Commission (SEC) statements and rulings, cited in Gul, Ng and Tong, 2003). Gul *et al.* (2003) said: ". . . given the internationalization of auditing standards, the globalization of trade and the importance of auditor independence issues, it behooves accounting researchers to examine these issues in other countries" (p. 381).

Prior studies have examined empirically the ethical behaviour of auditors in western countries such as Canada, US, UK and Australia (*e.g.*, Cohen, Pant, & Sharp, 1996; Shafer, Ketchand, & Morris, 2004). "However," according to Gul *et al.* (2003), "several studies suggest that cultural differences could also affect moral decision making and that ethical behavior amongst Asians could be different partly as a result of cultural differences" (p. 381). Singaporeans are less rule-oriented (*i.e.*, less deontological) in their moral decisions than Americans (Swinyard, Rinne, & Kau 1990). Some of the previous studies emphasised the social responsibility of the accountancy profession indirectly recognising market mechanism by which the relationship between the professionals and the public is managed (see Stevenson, 2007). However, given that the main purpose of the profession of accountancy is the social responsibility of the protection of the public interest, a satisfactory code of conduct should depend upon political mechanism, which, if not considered, will result in a code that can deal with only the symptoms, not the problems. This indicates that there is a need to study the focus of the code of ethics from the perspective of social responsibility of the accountancy profession. Claypool *et al.* (1990) examined the perceptions of ethics formed by Certified Public Accountants (CPAs) to know whether CPAs react to ethical dilemmas by mere conformance to the specific rules (principles) in their code of ethics or whether they go beyond the specific rules and react on a higher ethical plane. However, the study did not emphasise the context of social responsibility of the profession of accountancy.

India offers an interesting contrast with other countries and the scant and limited empirical evidence on the factors affecting the ethical judgements and behaviour of the professional accountants of India is surprising. Again, much of the literature on accounting ethics has focused on whether accountants conform to prescribed code of professional ethics (*e.g.*, Claypool, Fetyko, & Pearson, 1990). Some studies have been normative in nature, emphasising the requisite for appropriate ethical conduct or focusing on the professional accountants' responsibility in society (*e.g.*, Shafer *et al.*, 2004). Past studies have focused on the factors influencing the accounting ethics (*i.e.*, dynamics of ethical decision-making process) either from the perspective of prescriptive factors (*e.g.*, Elias, 2002) or from the perspective of descriptive factors (*e.g.*, Gul *et al.*, 2003), not from the perspectives of both the factors. Thus, the study aims at the answers to the following research questions:

**Research question 1:** What are the theoretical perspectives in the accounting ethics?

**Research question 2:** How the PCAs arrive at the resolution of the ethical dilemmas. Here, the resolution of dilemma, according to Moon and Bonny with Bloom *et al.* (2004), is defined as, "applying a set of principles to arrive at a reasoned, acceptable, defensible choice between the two right courses of action posed by an ethical dilemma (p. 59).

**Research question 3:** What are the factors influencing the ethical judgement/evaluation?

**Research question 4:** How the perception of ethical judgement, that is, the factors that influenced the ethical judgement/evaluation, has an impact upon the professional accountants' behavioural intention?

**Research question 5:** What is the relevance of political mechanism, an argument made by Friedman (1998) against the social responsibility of business, to the main purpose of the profession of accountancy involving the discharge of social responsibility of the protection of public interest?

## Objectives

The central purpose of this study is to make an earnest attempt to gain an insight into how the PCAs form the perception of ethical issues and dilemmas in the accounting profession. Accordingly, the study investigates the factors that influence the ethical perceptions. The specific objectives of the current study, based upon the above five research questions, are as under:

**(1) Theoretical framework:**

Ethical issues in the accounting profession are dealt with based upon principles. According to Melé (2005), frequently, ethical principles come from rationalistic theories / normative theories such as Kantianism and Utilitarianism which propose diverse methods of moral reasoning to apply properly these principles for solving dilemmas or to justify certain action. Thus, the first objective of the study is **to find out the theoretical perspectives in the ethics of the accountancy profession.**

**(2) Ethical issues and dilemmas:**

The accounting professionals are faced with the ethical dilemmas involving a variety of ethical issues. Thus, **the research aims at knowing about what are the ethical issues and dilemmas confronting the PCAs of Karnataka and how the ethical dilemmas confronting the PCAs compare to the issues addressed by the ICAI's code of ethics.**

**(3) Prescriptive factors:**

An individual, when faced with a dilemma, is influenced by a set of prescriptive factors. So, the study makes an earnest attempt **to examine the impact of some of the prescriptive factors considered to have an impact upon the ethical judgement and the behavioural intention.**

**(4) Descriptive factors:**

Similarly, the individuals simultaneously think about the issue/issues involved in a particular dilemma from a descriptive perspective (strategy). So, one of the objectives of the study is **to discuss the impact of a set of descriptive factors upon the ethical perception.**

**(5) Prescriptive and descriptive factors:**

The final ethical decision is the product of the impact of prescriptive and descriptive factors upon the ethical perception. Another objective of the study, therefore, is **to know the overall impact of a set of both the prescriptive and the descriptive factors upon the ethical judgement and the behavioural intention.**

**(6) Demographic factors**

Demographic variables also have an impact upon the ethical perception. For example, Puratchimani (2007) argues that there is a correlation between age, sex, education, corporate position, and fraud. Hence, the final objective of the study is **to assess the impact of the demographic variables upon the ethical perception formed by the PCAs.**

**(7) Intended outcome:**

As a matter of fact, academic research should positively influence the possible refinements in theory, research, and practice. Accordingly, the last objective is **to raise major implications for accounting ethical theories, research, and professional practice of accounting based on the findings of this study.**

## Hypothesis Development

**Prescriptive factors:**

**Personal moral philosophies (Normative ethics)**

**$H_{1(a)}$ :** Idealism is positively related to the ethical judgement, and negatively related to the behavioural intention.

**$H_{1(b)}$ :** Relativism is negatively related to the ethical judgement, and positively related to the behavioural intention.

*(For the purpose of the current study, the ethical judgement is the perception of the extent of inappropriateness of a case of a questionable scenario, and the behavioural intention is the likelihood that an individual will engage in the same behaviour as that of an unethical case).*

**Attitudes towards business ethics**

**$H_{2(a)}$ :** The view that morality and ethics are irrelevant in business is negatively related to the ethical judgement, and positively related to the behavioural intention.

**$H_{2(b)}$ :** Objectivism is negatively related to the ethical judgement, and positively related to the behavioural intention.

**Ethics and social responsibility**

**$H_{3(a)}$ :** Individuals who believe that social responsibility is important in improving profitability will judge the unethical action more harshly and be less inclined to behave in the same way as that of the unethical case compared to the individuals who do not believe in these links.

**$H_{3(b)}$ :** Individuals who believe that social responsibility is important in the long-term success of the firm will judge the unethical action more harshly and be less inclined to behave in the same way as that of the unethical case compared to the individuals who do not believe in these links.

**$H_{3(c)}$ :** Individuals who believe that social responsibility is important for the short-term success of the firm will judge unethical action more leniently and be more inclined to behave in the same way as that of the unethical case than the individuals who do not believe in these links.

**Descriptive factors:**

**$H_{4(a)}$:** Job related network has a positive impact upon the ethical judgement, and negative impact upon the behavioral intention.

**$H_{4(b)}$:** Societal network has a positive impact upon the ethical judgement, and negative impact upon the behavioural intention.

**$H_{4(c)}$:** Formal rule network has a positive impact upon the ethical judgement, and negative impact upon the behavioural intention.

**Prescriptive and descriptive factors:**

**$H_{5(a)}$** : Prescriptive and descriptive factors differ from each other in their impact upon the ethical judgement and the behavioural intention.

**$H_{5(b)}$ :** The overall impact of prescriptive and descriptive factors is stronger than the individual impact of these factors.

## Research Methodology

The purpose of this study is to gain an insight into how the perception of accounting ethics is formed by the professional accountants (*i.e.*, practising chartered accountants) of Karnataka. The methodology of the study involves the following aspects:

### Sampling procedures

The primary data were obtained from a self-administered questionnaire given to 1210 ICAI members in Karnataka. The questionnaire was also emailed to the PCAs who had agreed to respond by email at the first visit. PCAs were selected from the list of members that contains the names of all the members belonging to southern region[1] as on 1.4.2006 with their membership numbers, status and addresses. Only members in full-time practice[2] were considered. This is because the main profession of a member in part-time practice is not the profession of accountancy (ICAI, 2006).

The Indian State of Karnataka is now divided into 30 districts with 4 administrative divisions (Wikipedia, 2011). The four administrative divisions are as follows:

1. Bangalore division. This comprises 9 districts, namely, Bangalore Urban, Bangalore rural, Chikkabakkapur, Chitradurga, Davanagere, Kolar, Ramanagara, Shimoga, and Tumkur.
2. Belgaum division. There are 7 districts in this region. They are: Bagalkot, Belgaum, Bijapur, Dharwad, Gadag, Haveri and Uttara Kannada.
3. Gulbarga division. This consists of 6 districts: Bellary, Bidar, Gulbarga, Koppal, Raichur and Yadgiri.
4. Mysore division: This is made up of 8 districts: Chamarajanagar, Chikamagaluru, Dakshina Kannada, Hassan, Kodagu, Mandya, Mysore and Udupi.

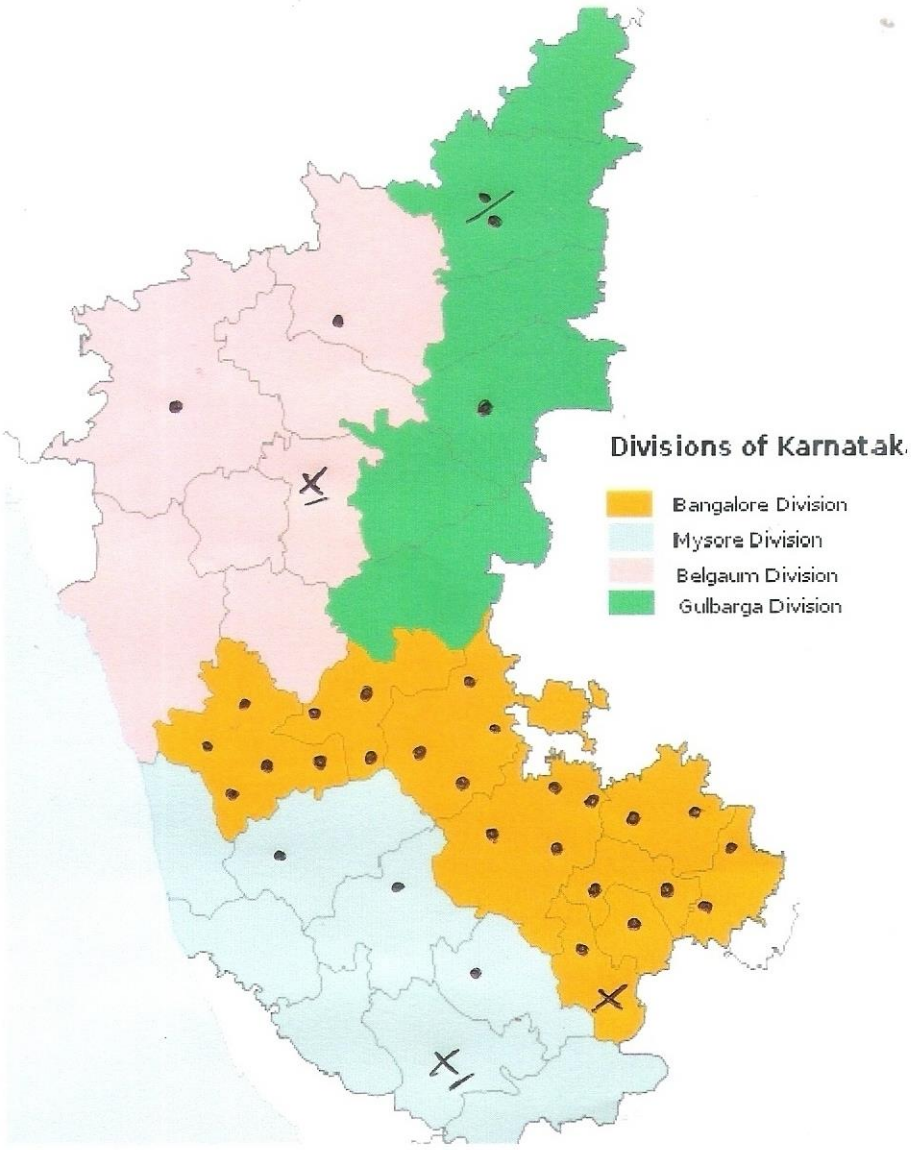
For the current study, disproportionate stratified random sampling technique was used to collect the information. Each of the above 4 divisions was considered as a stratum. Accordingly, the respondents, *i.e.*, 1210 PCAs (Table 1) were selected from a total population of 3287 PCAs (Table 1 & Figure 1).

**Table 1: Population* and sample size for the current study**

| Stratum (*i.e.*, administrative division of Karnataka) | Population* (*i.e.*, CAs in full-time practice | Sample size | Effective response rate |
|---|---|---|---|
| Bangalore division | 2472 | 900 | 221(24.56%) |
| Belgaum division | 295 | 120 | 22 (18.33%) |
| Gulbarga division | 125 | 50 | 16(32.00%) |
| Mysore division | 395 | 140 | 46(32.86%) |
| Total | 3287* | 1210 | N=305(25.21%) |

Source: List of members of ICAI as on 1-4-2006.

**Figure 1.3: Divisions of Karnataka**




Source: http://en.wikipedia.org/wiki/File:Karnataka_divisions.svg

· = 100 PCAs, + = 72 PCAs, ± = 95 PCAs, ÷ = 25 PCAs

As indicated by Table 1 and Figure 1, the sample population involved 3287 CAs in full-time practice from Karnataka and a sample, as reported in Table 1, of 1210 PCAs was used ($\chi^2$=1.33, p=.723 NS). The insignificant chi-square ($\chi^2$) value

shows that the sample of 1210 PCAs does not differ significantly from the total population of 3287 PCAs. A total of 305 useable responses were received. This equates to a response rate of 25.21 per cent. On hindsight, a possible reason for the relatively low response rate might be related to the time constraints faced by PCAs due to their hectic schedule.

**Questionnaire design**

The survey collected information on issues relating to the perception of the ethical issues and dilemmas in the accounting profession. A pilot study of the questionnaire was undertaken involving the PCAs of Mangalore city in Karnataka. Based on their feedback, some changes to the questionnaire were subsequently undertaken.

**The code of ethics**

The focus of the ICAI's code of ethics is examined in general in the current study based on the factors PCAs consider when faced with situations having ethical implications. There are nine factors of which the respondents were asked to note the importance when they contemplated each of six dilemmas on a five-point scale where '1' was 'very unimportant' and '5' was 'very important'. Five of the factors correspond to the specific fundamental principles in the code of ethics: integrity, confidentiality, independence, professional competence, and technical standard. The factor 'recipient of responsibility' represents the most basic code-oriented fundamental principle because it reflects the protection of the public interest. Remaining three of the factors listed in the questionnaire are non-code factors, that is, these factors do not correspond to the fundamental principles in the code. They are recipient of benefit, seriousness of breach, and growth of concern. The concepts of 'recipient of responsibility' and 'seriousness of breach' are considered as higher plane factors (Armstrong, 1985 cited in Claypool *et al.*, 1990). Table 2 shows the six dilemmas used for the respondents' contemplation.

**Table 2: Ethical dilemmas**

| Dilemma | Issue | Description |
|---|---|---|
| **1.** | **Relative's interest** | Practising Chartered Accountant's (PCA's) sister, Sushma, is the Manager and a 26% stockholder of ABC Company Ltd. The President of ABC Company limited asked PCA if he/she would perform the annual audit of ABC Company Ltd. The PCA thinks about accepting the audit engagement. |
| **2.** | **Confidentiality** | PCA serves as the auditor for Widget and Co. Widget's market share has declined drastically and PCA knows that Widget will soon be bankrupt. Another of PCA's audit client is Solid Company. While auditing Solid's accounts receivable PCA notes that Widget and Co. owes Solid Rs.4,00,000. The PCA thinks about warning his/her client Solid company about Widget's impending bankruptcy. |
| **3.** | **Inflated profit** | A PCA has been appointed as the auditor of ABC Co. Ltd. During the course audit work PCA has found that the expenditure of current period not disclosed in the financial statement so as to inflate the profit. The PCA thinks about the issue of unqualified report. |
| **4.** | **Taxable income** | ABC Co. Ltd. asks the PCA if he/she would lower the accounting and taxable income by misstating the cost of goods sold expense. The PCA thinks about misstating the cost of goods sold expense. |
| **5.** | **Bankruptcy** | A PCA recommends a software package to a non-audit management advisory services client. The PCA knows that software company will go into liquidation soon. The PCA thinks about informing the client about the software company's going concern problem, *i.e.*, the company will go into liquidation soon. |
| **6.** | **Irrecoverable debt** | A Co. Ltd. is proposed to be taken over by B Co. Ltd. A Co. Ltd has deliberately refrained from making the necessary disclosure of a large amount of irrecoverable debt of over Rs.4. crore. The managers of A Co. Ltd. asked PCA if he/she would perform the audit of A Co. Ltd. and issue the 'true and fair' certificate. PCA thinks about accepting the audit engagement and issuing "true and fair" certificate. |

Sources: (1) Reactions to ethical dilemmas: A study pertaining to certified public accountants (Claypool *et al.*, 1990, p. 701).
(2) Adequate disclosure- An essential requirement for ethics in Accounting (Rao *et al.*, 2006, p.41).
(3) Certified public accountants: Ethical perception skills and attitudes on ethics education (Ward *et al.*, 1993, p.604).

**Independent variables (determinants of ethical perceptions)**

The independent variables consisted of potential factors− in terms of three sets of prescriptive factors (moral philosophy, attitudes towards business ethics, and the perceived role of ethics and social responsibility in organisational effectiveness), and three of the descriptive factors (job related network, societal network, and formal rule network− that influence the ethical judgement and the behavioural intention. Forsyth (1980) developed Ethics Position Questionnaire (EPQ) to measure moral philosophy. Forsyth's (1980) EPQ consists of two ten-item scales that measure ethical idealism and ethical relativism respectively. The current study used this two ten-item instrument to measure moral philosophy. To determine the attitudes towards business ethics, the factorial subscales of the Attitudes Toward Business Ethics Questionnaire (ATBEQ), identified and used by Etheredge (1999) in the validation of the Perceived Role of Ethics and Social Responsibility (PRESOR) instrument developed by Singhapakdi, Vitell, Rallapalli, and Kraft (1996), were used.To determine the role of ethics and social responsibility in achieving organisational effectiveness, PRESOR instrument, developed by Singhapakdi *et al.* (1996), was used.The current study of descriptive variables was based on a descriptive model of an individual's ethical system developed and tested, from an interdisciplinary literature review, by Devitt and Hise (2002).

**Dependent variables**

Past studies on the ethics of the accountancy profession have used the ethical perception as a dependent variable (*e.g.*, Flory, Philips, Jr., Reidenbach, & Robin., 1992; Elias, 2002; Shafer *et al.*, 2004; McManus & Subramaniam, 2009). The current study used the ethical judgement and the behavioural intention as the dependent variables. For the purpose of the current study, the ethical judgement is the perception of the extent of inappropriateness of a case of an unethical situation. The respondents indicated their perceived degree of the inappropriateness of an unethical action by circling/ticking the appropriate number on a five-point scale where '1' was 'very appropriate' and '5' was 'very inappropriate'. According to Flory *et al.* (1992), "intention represents the individual subjective probability of engaging in the behaviour" (p. 295). The respondent recorded his/her subjective probability of

engaging in the same unethical action as the case of unethical scenario by circling/ticking the appropriate number on a five point scale where '1' was 'very low likelihood' and '5' was 'very high likelihood'.

**Method of analysis**

The current study has been made by converting the collected data into measures such as means. For analysing the data, statistical techniques (SPSS, 2000) like *Karl Pearson's correlation analysis* and *multiple regression analysis* have been used as required in appropriate places. The analysis also utilised the *t*-test procedure, one-way *ANOVA* (analysis of variance) procedure, *Chi-square* ($\chi^2$) test, *Z* test and *KMO* (Kaiser, Meyer, Olkin) and *Bartlett's test* (as appropriate). Significance levels of 0.001, 0.01, 0.05, and 0.10 were used.

**Secondary data**

Along with the primary data, secondary data have been collected from various published sources like books, journals, etc. by visiting libraries, and the ICAI's Mangalore Branch of Southern India Regional Council (SIRC) and also from internet. The researcher also collected the materials like the list of members of SIRC of ICAI (ICAI, 2006) from some of the members of Mangalore Branch of SIRC of ICAI.

## Scope of the Study

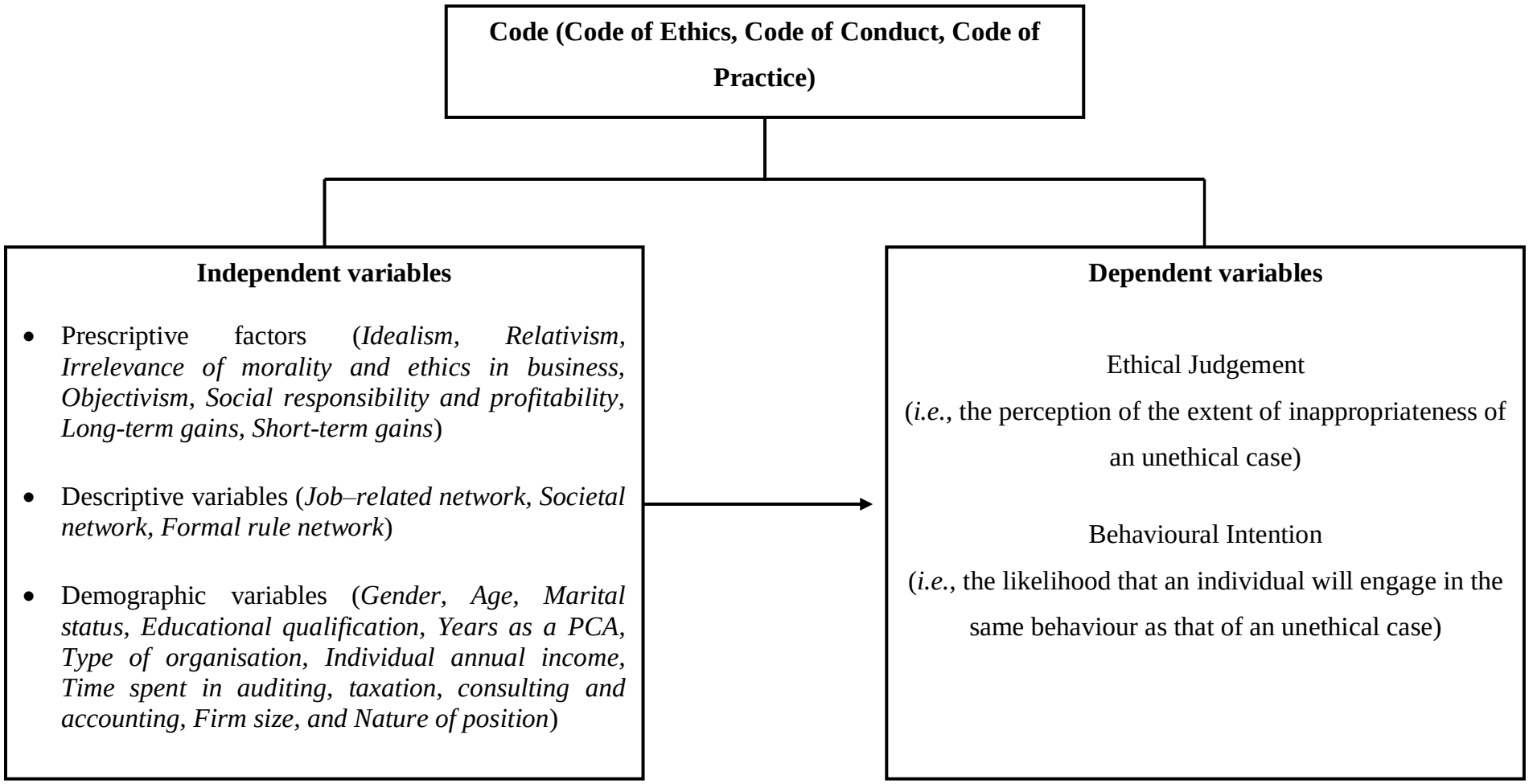
The study titled "Ethical Issues and Dilemmas in the Accounting Profession: *A study with Reference to Practising Chartered Accountants in Karnataka State"* was conducted with the main intention of making an earnest attempt to gain an insight into how the perception of professional accounting ethics was formed by the professional accountants of Karnataka. Accordingly, the current study, first, examined the focus of the ICAI'S code of ethics for the resolution of dilemmas and then, examined the ethical perception in terms of the factors the respondents considered important in the ethical judgement and the behavioural intention by grouping the factors into two categories, namely, prescriptive and descriptive factors. Subjects in the study were all Chartered Accountants (CAs) of Karnataka in full time

practice. Data were gathered using a self-administered questionnaire during 2007, 2008 and 2009.

## Literature Review and Overall Conceptual Framework (Model) Development

Previous researchers examined the influence of various factors upon the ethical perception formed by the professional accountants. However, some studies have focused only on rhetorical normative judgements about what is right and wrong in the accounting profession, while others have been carried out in the context of foreign culture without considering the impact of a comprehensive set of influences. Against this backdrop, drawing upon the major ethical dilemmas cited in the literature and the overall conceptual framework (model) (Figure 2), the current study examined the ethical issues and dilemmas confronting the practising chartered accountants of Karnataka.

**Figure 2: Overall conceptual framework (Model)**


Code (Code of Ethics, Code of Conduct, Code of Practice)
Independent variables
Prescriptive factors (*Idealism, Relativism, Irrelevance of morality and ethics in business, Objectivism, Social responsibility and profitability, Long-term gains, Short-term gains*)
Descriptive variables (*Job–related network, Societal network, Formal rule network*)
Demographic variables (*Gender, Age, Marital status, Educational qualification, Years as a PCA, Type of organisation, Individual annual income, Time spent in auditing, taxation, consulting and accounting, Firm size, and Nature of position*)
Dependent variables
Ethical Judgement
(*i.e.*, the perception of the extent of inappropriateness of an unethical case)
Behavioural Intention
(*i.e.*, the likelihood that an individual will engage in the same behaviour as that of an unethical case)

## The Summary of the Key Findings

The study, first, outlined theoretical background for the present research study. Accordingly, the prominent ethical theories highlighted include one descriptive theory, namely, the agency theory; three normative theories of business ethics, namely, (1) the stockholder theory, (2) the stakeholder theory, and (3) the social contract theories; and philosophical ethics comprising four normative theories of ethics, namely, (1) teleological approaches, (2) deontological approaches, (3) hybrid theories, and (4) virtue ethics. As the central problem in accounting is managing the so-called equity/efficiency trade-off, the discussion on the ethical theories followed a brief discussion on the equity-efficiency trade-off.

The study, then, examined, in general, the Institute of Chartered Accountants of India's (ICAI's) code of ethics. The objective, here, was to find out how the ethical dilemmas confronting the PCAs compare with the ICAI's COE by exploring some of the factors (issues) PCAs consider when faced with these situations having ethical implications and, thereby, to find out whether the professional accountants' performance of responsibilities is governed solely by the most general principle of the protection of public interest or by the specific code-oriented provisions. PCAs indicated that the corresponding specific code-oriented concept or concepts of integrity, independence, confidentiality, and professional competence is or are more important than the most general concept of 'recipient of responsibility' that represents the fundamental code-oriented principle of the protection of the public interest when viewing the ethical dilemmas. Though most of the dilemmas provoked strong reaction among PCAs regarding the non-code oriented general principle of 'seriousness of breach', the specific code-oriented concept of 'integrity' was rated of higher importance than the concept of 'seriousness of breach' for all the dilemmas. Thus, in general, PCAs do not subordinate the specific PCAs' ethics code provisions to the consideration of the general concept of the relative seriousness of a code breach or the general concept of 'recipient of responsibility' that reflects the fundamental code-oriented principle of the protection of the public interest. This result, then, is generally consistent with the findings of Claypool *et al.* (1990).

The current study, drawing upon some of the concepts and propositions cited in the literature, has examined the impact of some of the factors upon two dependent variables, namely, 'ethical judgement' (*i.e.*, for the purpose of the current study, the perception of the extent of inappropriateness of a case of an unethical situation) and 'behavioural intention' (*i.e.*, for the purpose of the current study, subjective probability of engaging in the unethical action) in order to gain an insight into how the perceptions of ethical issues and dilemmnas are formed by PCAs of Karnataka, a southern state of India. Ethical judgement is affected by teleological evaluation of consequences of a decision alternative and deontological evaluation of a decision alternatives and behavioural intention is a result of ethical judgement (Hunt & Vittel, 1993). Thus, the study used these variables as dependent variables. The impact of independent variables upon these dependent variables has been discussed from the perspective of both the prescriptive and descriptive factors.

It has been found that personal moral philosophies (*i.e.*, idealism and relativisim) did not have a significant impact in the case of dependent variable 'behavioural intention. In the case of the dependent variable 'ethical judgement', only 'relativism' had a significant impact. The presence of significance only for 'relativism' in the case of dependent variable 'ethical Judgement' is consistent with the Yetmar and Eastman's (2000) view that "[r]esearch has shown that the ethical orientation of relativism drives the categorization of individual's ethical orientation. The ethical orientation of idealism has been shown to be not significant" (p. 278).

The attitudes of PCAs towards business ethics in terms of 'irrelevance of morality and ethics in business' and 'objectivism' business philosophies were found to contribute significantly as predictors of the behavioural intention and only 'objectivism' contributed, especially when considered along with other independent variables, significantly and moderately, opposite to the hypothesised direction (*i.e.*, hypothesis $\mathbf{H_{2(b)}}$ states that objectivism is negatively related to the ethical judgement, and positively related to the behavioural intention), as predictor of ethical judgement.

The examination of the impact of the perceived role of ethics and social responsibility in the achievement of organisational effectiveness revealed that 'long-

term gains' had a significant relationship with both the dependent variables, namely, 'ethical judgement' and 'behavioural intention' in the hypothesised direction. 'Social responsibility and profitability' was found to have significant and positive relationship with the ethical judgement only. Thus only 'long-term gains' was significantly related to both the ethical judgement and the behavioural intention. Accordingly, individuals who were high on 'long-term gains' dimension rated the action of the auditor's silence on the wrong treatment of cost of Research and Development (R & D) by the client as more inappropriate and showed low probability for an average PCA being engaged in the same behaviour as that of the auditor.

Drawing upon the study of Devitt and Hise (2002), the impact of descriptive factors, namely, 'job related network', 'social network' and 'formal rule network', upon the dependent variables, was assessed. Accordingly 'job- related network' and 'societal network' were found to contribute significantly as the predictors of 'ethical judgement' and 'societal network' and 'formal rule network' were found to contribute significantly as the predictors of 'behavioural intention'.

As choice of an ethical course, when faced with ethical dilemma, may not always be in line with the evaluation of ethical alternatives and the prescriptive factors differ from descriptive factors, it is also expected that the impact of descriptive factors upon the ethical perception involving the selection of an ethical course of action differs from the impact of prescriptive factors used to justify that selection, that is, to evaluate that selection based on fairness. Accordingly, the study also tested the hypothesis $\mathbf{H_{5(a)}}$ that states that descriptive and prescriptive factors differ from each other in their impact upon the ethical perception. The influence of the factors (*i.e.*, descriptive factors) upon the selection of an outcome based on self-interest (efficiency) differed from the influence of the factors (*i.e.*, prescriptive factors), as a justification, upon the selection of the outcome on the basis of fairness by changing the importance of attributes affecting what is fair (equity). The impact or the explanatory power, measured in terms of adjusted $R^2$, of descriptive factors was more than that of the prescriptive factors in case of both the dependent variables, namely, the ethical judgement and the behavioural intention.

Resolution of a dilemma is a joint product of the impact of both the descriptive and the prescriptive factors. Hence, the hypothesis $\mathbf{H_{5(b)}}$ (*i.e.*, the overall impact of prescriptive and descriptive factors is stronger than the individual impact of these factors) was tested and the significant difference was found except for the difference between the overall impact and the impact of descriptive factors upon the behavioural intention.

The study also examined the impact of the demographic variables. Accordingly, most of the demographic variables were significantly related to the ethical judgement and the behavioural intention. For example, though it was found that a more number of males are highly ethical than females, male PCAs are relatively more likely to behave in the same way as the unethical action of PCA X of the case scenario than females. Younger PCAs are generally more ethical than the older PCAs and younger PCAs are less likely to engage in unethical behaviour than the older PCAs.

In summary, the study, first, outlined theoretical background for the present research study and examined the code of ethics. The study found support for the shortcoming of the code in the enforcement of the general principle of protection of the public interest and revealed several determinants of ethical perceptions formed by PCAs, such as prescriptive factors comprising personal moral philosophies, attitudes towards business ethics, the perceived role of ethics and social responsibility in achieving organisational effectiveness and descriptive factors involving job related network societal network and formal rule network.

## Implications

The focus upon the specific code-oriented concepts rather than a general principle of recipient of responsibility that represents the protection of the public interest reflects the mechanical way in which the rules are often applied. This reflects the view of Velayutham (2003) that focus of codes of ethics has been to progressively replace the ‘true and fair view’ requirement by ‘compliance with accounting standards’.

An important point of interest regarding relatively low rate of importance for the specific factor 'technical standard', for dilemmas 1, 2, 3, 4 and 6 in comparison with the specific factors, 'integrity' for all the dilemmas, 'confidentiality' for dilemma 2 and 'independence' for dilemma 1 is the weaker impact of the 'technical standard' in general. That is, technical standard, in general, is not as strong as other specific standards for dilemmas 1, 2, 3, 4 and 6. The fact that the factor 'technical standard' was not as important as the other code-oriented factors, especially the factor 'integrity', shows that the structural aspects of current accounting involves **ambiguity** or that there is **flexibility** in technical standards such as the financial reporting standards. **Structural aspects** of current accounting were one of the main reasons why the recent accounting scandals occurred. Flexibility or ambiguity in financial reporting standards is one of the reasons why the professional accountants face the ethical dilemmas leading to the conflicts of interest (Bazerman, Morgan, & Loewenstein, 1997).

A second point of interest regarding the difference of importance rating between dilemma 5 and other dilemmas, namely 1, 2, 3, 4 and 6, is the consideration of only one of the factors, namely, 'integrity', as the most important factor for dilemma 5. High rate of importance for the factors such as 'integrity' is specific to the **conscience** of an individual and, thus, reflects the individual's ethical orientation of idealism, that is, the individual's personal moral philosophy, a prescriptive rather than a descriptive factor. Further idealism, unlike a descriptive factor, is consistent with the deontological ethical theory. The fact that only 'integrity' factor was rated the most important factor corresponding to dilemma 5 shows that the ethical orientation of idealism, that is, **personal moral philosophy**, is the only factor that is said to have an impact upon the resolution of such dilemmas that are rarely faced in the field of the profession of the accountancy.

The factors 'growth of concern' and 'recipient of benefit' received relatively low rates of importance for all the dilemmas. Although this may suggest that teleological ethical approaches do not have much impact upon the resolution of ethical dilemmas, there is a lack of initial-loading of the mean values of these factors for all the dilemmas. These mean values denote that many respondents indicated

some importance for these factors. Thus, the recognition of the importance of utilitarianism approaches by the PCAs for the resolution of ethical dilemmas cannot be ruled out altogether. Thus, the resolution of ethical dilemmas is made based upon both teleological and deontological approaches.

Though, it was found, in general, that the ICAI's code is sufficiently inclusive to provide a working guideline for PCAs, it, in substance, addresses more the ethical issues about which the PCAs are most concerned **than** about which the public are most concerned. This is because, the PCAs' reactions, when they contemplated each of the ethical dilemmas and rated the importance of code-oriented and non-code issues or factors, were governed primarily by the specific provisions of the PCAs ethics code rather than the fundamental principle of 'recipient of responsibility' that represents the protection of the public interest. Relatively low importance of the most general principle of 'recipient of responsibility' suggests that the **protection of public interest** is not being given more importance in practice by the professional accountants. This has also been evidenced by the recent accounting scandals. Most of these scandals involved the adoption of the creative accounting. This relatively low rate of importance for the factor 'recipient of responsibility' thus, shows that the professional community, along with the business community, has taken shelter in Friedman's (1998) normative theory of business ethics, that is, stockholder theory, which says that profit maximisation within the rules of the game is the only objective of a business concern. But, unlike the business field, the objective of the accountancy profession is **not economic but social.** The protection of the public interest is the main social responsibility of the accountancy profession.

Unlike business, the social responsibility of the accounting profession is not for the maximisation of profit within the rules of the game, but for the protection of public interest, (*i.e.*, the acceptance of socialist view) that goes beyond economic and legal responsibilities. Thus, the accounting regulation has an important function in society. From an accounting based view of the field of corporate social responsibility (CSR), 'matching principle' is the sine- qua-non condition, as Calafell, Gutierrez, and Lopez (2006) point out, more so perhaps than any other with an inherent socio-economic dimension that can facilitate the calculation of business profits to take into

account a full view of socio-economic factors. If business concern does not incur all the expenses and investments (*i.e.*, appropriate allocation of scarce resources) that are reasonably (or responsibly, in social terms) necessary for the production of goods or the provision of services they cannot be recorded in the accounting books. Thus, the professionals need to go beyond its conventional accounting conceptualisation (*i.e.*, beyond economic and legal responsibilities) in order that the socio-economic calculation of profit within the accounting based view of the field of CSR would be taken into account.

Unlike business, there is no disagreement as to the people to whom the profession owes its responsibility. There are five principal arguments, as responded by Smith (1998) to Friedman's contentions, against corporate social responsibility. First, the problem of competing claims (the role of profit) that is, business's function is economic, not social. Second, there is a competitive disadvantage because social action will have a price for the firm. So, either such works should be carried out by government or, at least, legislated for so that all corporations or industries will be subject to the same requirements. Third, competence, that is, a firm is not competent to deal with social issues. Forth, fairness, that is, if corporate executive exercises the distinct 'social responsibility' by spending the money in a different way than stockholders would have spent it, then he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other, rather than serving as an agent of the stockholders and it is, on the grounds of political principle, intolerable that the public functions of taxation, expenditure, and control be exercised by the people who at the moment to be in charge of particular enterprises, selected for the posts by strictly private groups. Civil servants, elected through a political process, are the right persons to deal with social issues. And fifth, legitimacy, that is, social issues are the concern of government because business pays the government well and the government should do its job and leave the business alone to do its. In fact requirements for the social responsibility of the accounting profession, contrary to the business, are implied by these five principal arguments against the CSR. They emphasise, first, change in the expectation of the practice of the profession of accountancy, that is, the practice of the accounting profession should be guided and judged by social criteria alone. Second, enlightened self-interest, that is, the current

institutional arrangement should not be a reason for objecting to the profession's strict adherence to the matching principle. If the conceptual transgression of the matching principle is not unique to one individual or firm then the individual or firm can at least be expected to work for profession wide self-regulation; or the individual or the firm can work for government regulation. Third, the need for the knowledge of public interest objective of the accounting profession and the skill to achieve this objective; fourth, the acceptance of the socialist view; and fifth, respect for the public trust (special franchise) placed in the role of the professional accountant.

The above discussion implies that the concept of the accountancy profession involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate ways to determine the discharge of social (professional) responsibilities by the accounting professionals and the concept of 'social responsibility' of the accountancy profession involves the voluntary assumption of responsibilities that goes beyond the purely economic and legal responsibilities of the accountancy profession. The voluntary assumption is not possible for an accountant in his/her capacity as an agent of the businessman (*i.e.*, the client). Under the current institutional arrangements professional accountants are required to discharge their obligations in their capacities as agents of their clients, as are professionals such as attorneys with respect to clients and physicians with respect to patients. This shows a fundamental misconception of the character and nature of the accountancy profession.

Basically PCAs are not vulnerable to conscious bias as expressed by Bazerman, Loewenstein, and Moore (2002). Instead, they are vulnerable to **unconscious bias** due to the failure of the professional system in the orientation of the PCAs towards the **protection of the public interest**. This is evidenced by the facts that there is relatively low importance for the most general principle of 'recipient of responsibility' suggesting that the protection of public interest is not being given more importance in practice by the professional accountants, on the one hand, and high rate of importance for the factor 'integrity' reflecting an individual's ethical orientation of idealism, that is, the individual's personal moral philosophy on the other. Bazerman *et al.* (1997) made the following point:

> How realistic is the assumption that auditors – even those of high integrity – can provide impartial judgments that respond to the interest of creditors, stockholders, and the general public, rather than to the interests of the companies that hire them? . . . . the relationship that audit firms strive to develop with the clients may add to the auditors' psychological difficulty to make truly independent judgments. [Psychological research points to an in escapable conclusion: Such impartiality is impossible under current institutional arrangements] (pp. 90 – 91).

A respondent for the current study (*i.e.*, a PCA) stated thus:

> We do not think audit communit[y] by and large involve in knowingly misrepresentation of facts. Whatever has happened could be due to lack of knowledge or negligence in the process of verification of documents which is a sad thing to happen to the profession.

Friedman (1998) says:

> The difficulty of exercising 'social responsibility' illustrates, of course, the great virtue of private competitive enterprise – it forces people to be responsible for their own actions and makes it difficult for them to 'exploit' other people for either selfish or unselfish purposes. They can do good – but only at their own expense [*i.e.*, not using shareholders' money] (p. 249).

Though, being the supporter of free economy, Friedman(1998) wouldn't have extended the view that the doctrine of social responsibility involves the acceptance of socialist view to the field of accounting profession, in a way these scandals are the results of conceptual transgression of the Friedman's (1998) view. So, what does it mean to say that accounting regulations in the form of accounting standards should be formulated by a self-regulatory body with the least governmental intervention? What does it mean to say that the professional services, such as auditing, should be provided with the least governmental intervention? The recent accounting scandals are only the symptoms, not the problems! It is hard to improve professional services, that is to deter unconscious bias by threatening (punishment) or cajoling and it is hard to improve the same by imposing stricter accounting standards including the International Financial Reporting Standards (IFRS)!

As 'job related network' and 'societal network' were positively and significantly associated with the ethical judgement, attention should be paid to these factors if the objective is to improve ethical judgement formed by PCAs. A strong

professional culture[3] as the context and imbedded professional values as the driver of behaviour are a necessary condition for making 'job related network' has positive impact upon the ethical behaviour. A professional culture should be built on 'doing the right thing' on behalf of the public including clients, credit grantors, governments, employers, employees, investors, the business and financial community and others who rely on the objectivity and integrity of professional accountants to maintain the orderly function of commerce. Common to all is the need for the professional environment and professional leadership to nurture culture in ways that imbed virtue in the set of assumptions underlying the culture. Schein (1992) suggests that corporate leaders communicate the organisations' values and ethics (and thereby the assumptions underlying the culture) by the focus of their attention and also by what they ignore. Professional body, and other institutions, especially government, have a greater role in making the professional and societal elements, respectively, have a positive impact upon the ethical judgement through education.

Ethics in the profession of accountancy, as Solomon (1992) argued in the context of business ethics, is not a set of impositions and constraints, but rather is the motivating force behind professional behaviour and virtues are social traits that are reflected in individual actions or in the job related context. In the professional context, the set of social traits form a key component of the professional culture. Ethical behavioural intention may be improved by professional education on the importance of culture and the creation of an appropriate professional environment. Ethical behaviour amongst PCAs can be expected to show improvement when the professional surroundings also exhibit such social traits. Emotion reflects cultural background of an individual. Thorough screening of candidates for emotion that reflects such **social traits** will help recruiting an individual with good cultural background.

With the lack of significance for 'job related network' in case of the dependent variable 'behavioural intention' PCAs may not be predisposed to behaving in a certain way. This suggests that ethical behaviour can be improved through the development of social traits through education and screening of candidates for social traits.

With the lack of significance for formal rule network in case of the dependent variable 'ethical judgement', PCAs may not be predisposed to forming ethical judgement, especially, adhering to the spirit of the law rather than the letter of the law, in a certain way. This suggests that the lack of significance could be overridden by the improved ethical judgement through the modification of current law governing the profession of accountancy in such a way that PCAs protect the interest of the public, but not the interest of clients alone. However, it may be noted that the spirit of law is very difficult to be adhered to in a partnership or proprietorship type of organisational environment. This is because these forms of organisations are suitable for business purpose, not for the purpose of the **protection of the public interest**. The spirit of the law may be expected to be observed only in case of charitable and socialistic types of organisations rather than business organisations! Nevertheless, the main purpose of the profession of accountancy (*i.e.*, the protection of the public interest) can be served only when there is adherence to **the spirit of the law**, which is taken to be the ethical demands placed on any profession by a society. And should we persecute professionals for the crimes of the spirit? S. K. Shelgikar, former finance director, Videocon, says:

> Let's not ask people to fallow the spirit of the law on issue where the law itself may not exist. Because then the 'spirit' is a very subjective thing and open to a multiple interpretations, each right in its own way (quoted in Prasad, 2002, p. 28).

It may be inferred from the lack of significance for formal rule network in case of ethical judgement and the presence of significance for the same in case of the behavioural intention and also from the strongest significance for 'formal rule network' in case of dependent variable 'behavioural intention' that PCAs resolve ethical dilemmas on the basis of consequences (utilitarianism) rather than rule (deontological) approach. The current law governing the profession of PCAs, therefore, has only succeeded in making them adhere to **the letter of the law**, not **the spirit of the law**. Modification of current institutional arrangement may, therefore, be expected to go a long way towards the ethical judgement. This is because adherence to the spirit of the law (*i.e.*, voluntary assumption of responsibilities) requires the

development of virtues. The development of virtues requires an environment conducive to the same. The current institutional arrangements are not conducive to the ethical practices of PCAs in a true spirit. It can be inferred from the significance of association for 'formal rule network' found with the dependent variable 'behavioural intention' alone that the formal rule network, under the current institutional arrangements, need to be tightened up if the objective is to improve ethical behaviour among PCAs to a certain extent.

Greed, personal gain and pursuit of power prevailed in many of the accounting scandals. The accounting frauds corresponded to an exponential growth in the accounting professionals' compensation along with the executive compensation. It is very difficult to deter accounting fraud by some with legislation, control and cultural norms without considering the potential for enormous personal gain. Solomon writing in 1994 (cited in Rockness & Rockness, 2005) said:

> When otherwise good people do bad things in a financial reporting context, a more utilitarian approach may well be the way to control behavior (if not values). Where management is driven by ego or greed, deterrence must be focused on outcomes . . . making the cost of unethical behaviour exceed the potential gain from the behavior (p. 51).

Further, the formal rule network involves the element of detection. The likelihood of detection triggers off the emotion towards a course of action. The emotion triggered off by the feeling of extent of the likelihood of being detected may be expected to reflect the values of a person showing that feeling. Lack of significance for formal rule network in case of the dependent variable 'ethical judgement', therefore, suggests that attention should be directed during the employment phase towards the rule that also considers emotions, along with intelligence, of potential Chartered Accountant (CA) candidates in order that they would be predisposed to forming ethical judgement in a certain way (*i.e.*, adhering to the spirit of the law rather than the letter of the law). This may be achieved by tracing the history of such candidates to be employed as a PCA or by the application of some psychological tests too.

The presence of significance for 'relativism' in case of 'ethical judgement' sheds light on a connection between this factor and the ethical judgement, though this

study cannot predict ethical judgement based on this factor alone. Thus, more the level of **relativism**, higher the hindrance to an individual's ability to recognise ethical issues (Forsyth, 1981, 1985; Forsyth, Nye, & Kelly, 1988; Forsyth & Pope, 1984). With the lack of significance for the personal moral philosophies in the case of dependent variable 'behavioural intention', PCAs may not be predisposed to behaving in a certain way. This shows that ethical behavioural intention could be improved through **education**. Ethical education in accounting should include teaching Kantianism and Utilitarianism theories. This is because the personal moral philosophies are consistent with these normative theories, and frequently the principles that come from rationalistic theories to serve as a rule's basis provide a broader perspective for ethical behaviour in accounting.

The lack of significance for personal moral philosophies in the case of 'behavioural intention' may also be caused by the limitations of these rationalistic ethical theories based on aprioristic principles of morality. These theories, unlike virtue ethics, do not consider the importance of motivation and habits for correct behaviour. Accountants, as with every professional, have to bear values in mind and have good character as they have to make practical judgments about concrete situations and, above all, have to behave correctly. The only way of solving dilemmas, in a field like professional accounting involving practical judgments, is the development of virtues, that is, permanent dispositions that favour ethical practice. However, the problem with the concept of virtue is that complete ethical viewpoint cannot be based solely on virtue without the anchor of the ethical theories. Virtues can be shown through the analysis of cases and inculcated through both the analysis of the case studies and the fundamental changes in the structure of professional environment along with normative theories. It may thus be correct to say that **virtue** without ethical principle has no root and ethical principle without **virtue** has no fruit.

Interestingly the results relating to the impact of attitudes towards business ethics (ATBEQ) variables on PCAs were mixed. While they don't appear to support such accountants' ethical judgement, such impact was found on their behavioural intentions. Surprisingly, 'objectivism' seems to have a moderately significant and negative impact on PCAs' intention to behave in the same way as that of the

inappropriate behaviour. The objectivist approach does not reject ethics. Hence, it is possible that it might have such negative impact. From the presence of significant association for the first ATBEQ factor 'irrelevance of morality and ethics in business' with the dependent variable 'behavioural intention' and the presence of moderately significance association for the second ATBEQ factor 'objectivism' as opposed to the hypothesised direction, with the ethical judgement and the behavioural intention, it may be inferred that, when faced with ethical dilemmas, ATBEQ factors, especially,'irrelevance of morality and ethics in business' , are also used for the justification of self-interest based selection of an outcome and thereby the ethical perception is impaired. These results indicate that attention should be paid to ATBEQ factors, especially 'irrelevance of morality and ethics in business', that are used to justify the preference for an ethical course of action by PCAs from a business perspective, if the objective is to reduce unethical behaviour in the field of accountancy profession. The recent scandals are, in a way, the results of 'irrelevance morality and ethics in business' based fairness used by the professionals to justify their questionable practices. This is because the scandals evidenced that auditors (*i.e.*, professional accountants) have stronger incentives to please clients than to serve the investing public that can be disastrous for the public. Thus, in a sense, the profession of accountancy has become more a typical business. The management-auditor alliance has harmful effects on the professionalism of auditors. If one views professionals as having, according to West (2003), "elevated occupational authority" (p. 40) to use their expertise in a specialised body of knowledge to serve the public, then the auditors' behaviour as reflected in the recent scandals casts doubt on their professionalism.

Further, the current institutional arrangements can exacerbate the problem of the use of the first ATBEQ factor as a prescriptive factor for the rationalisation of self-interest based resolution of a dilemma leading to unethical professional practices. Thus, under the current institutional arrangements, the achievement of the equity/efficiency trade-off may be facilitated by reducing the level of the first ATBEQ factor and focusing on Rand's (cited in Merrill, 1998) philosophy of 'objectivism'. This, in turn, suggests that attention can be paid to this philosophy of

'objectivism' by focusing on the level of professional competence. The level of the first ATBEQ factor may be reduced by strengthening the enforcement of the most basic principle of the protection of the public interest through changes in the current institutional arrangements.

The examination of the impact of PRESOR subscales, namely 'social responsibility and profitability', 'long-term gains' and 'short term gains' upon the ethical perceptions generally revealed that only 'long term gains' had a highly significant and positive relationship with the ethical judgement and negative relationship with the behavioural intention. This finding suggests that attention should be paid to an individual's time horizon if the objective is to increase ethical behaviour. Fundamental changes in the orientation and the system of the accountancy profession are the need of the hour. In sum, ethical behaviour amongst the professional accountants can be ensured when they perceive the social responsibility of the protection of the public interest as a means or process that reflects deontological principle. This, in turn, will result in long-term gain leading to the survival of the organisation with a maximum happiness for a maximum number of stakeholders as propounded by the theory of utilitarianism.

The fact that the impact or the explanatory power, measured in terms of adjusted $R^2$, of descriptive factors was more than that of the prescriptive factors in case of both the ethical judgement and the behavioural intention supporting the hypothesis $\mathbf{H_{5(a)}}$ (*i.e.*, prescriptive and descriptive factors differ from each other in their impact upon the ethical judgement and the behavioural intention) may be interpreted as follows: the attention should be paid in the direction of bringing in reform in the professional environment by focusing more on those descriptive spheres of influences in the ethical dilemmas faced by PCAs than those of the influences of prescriptive factors. However, it does not mean that only descriptive factors must be stressed in arriving at the optimal resolution of ethical dilemmas. This is because there was a strong support for the hypothesis $\mathbf{H_{5(b)}}$ that states that the overall impact of both these types of factors is stronger than the impact of these factors separately. Thus, a due consideration to the ethical judgement and the behavioural intention from the perspective of both the descriptive and prescriptive

factors can go a long way towards the encouragement to the ethical behaviour amongst PCAs. It is also a time to think **out of the box** and develop policy and regulatory models that are unique to the interest of the public, from a holistic approach, rather than adopt the profession specific imported model of independent regulators.

Though most of the demographic variables were significantly related with the ethical judgement and the behavioural intention, no theoretical rationale for this is known. This is consistent with the view of Finn, Chonko, & Hunt (1988) that no theoretical rationale for the significant relationship of income with the perceptions of ethical problems is known. Nevertheless, these results reflect that any policy framework for the regulation of the accountancy profession should also consider the impact of these **demographic factors** upon the ethical judgement and behavioural intention.

## Suggestions

In the light of the afore-made observations in the study, the following suggestions have been offered to improve the profession of accountancy:

- There is a need for unambiguous technical standards that can do way with, at least to some extent, the conflicts of interest.
- Professional body, and other institutions, especially government, should play the role of making the professional and the societal elements, respectively, have a positive impact upon both the ethical judgement and behavioural intention through education.
- Ethical judgement formed by PCAs can be improved through the modification of the current law governing the profession of accountancy.
- Professional bodies, in order to potentially improve ethical judgement and behavioural intention among PCAs, may need to, during the employment phase, pay attention to societal background of potential candidates.
- Steps must be taken to enhance the level of professional competence of PCAs.

- Any policy framework for the regulation of the accountancy profession should also consider the impact of the demographic factors upon both the ethical judgement and the behavioural intention.

## Limitations of the Study

This study lends support to the presence of interesting array of factors affecting the perception formed by PCAs of Karnataka, and in particular, provides a perspective on the focus of the ICAI'S code of ethics for the resolution of dilemmas and the impact of prescriptive and descriptive factors upon the ethical judgement and the behavioural intention drawing upon some of the concepts found in normative ethical theories, normative theories of business ethics, and some of the descriptive theories. However, these results need to be interpreted with caution. In other words, the results of this study should be interpreted in the light of limitations. The results of the study are subject to various shortcomings: first, the study results cannot be generalised to the total population of PCAs. Second, the use of a single hypothetical scenario, as by Mcmanus and Subramaniam (2009), restricts the validity of the results, and so on. As Mcmanus and Subramaniam (2009) acknowledged in their study, here also the researcher acknowledges the usual caveats of a survey research.

## Directions for Future Research

The study focused on the perception of ethics formed by the PCAs from the perspective of both prescriptive and descriptive variables. However, the study is more descriptive than prescriptive in nature. Although the study sheds light on a connection between the behavioural intention and some of the factors, classified as prescriptive and descriptive factors, it can't predict the actual behaviour based on these variables alone. Thus, lack of measure of actual behaviour is one of the limitations of this study along with other limitations such as the limitations related to the sample. Nevertheless it is reasonable to expect ethical perceptions to play an important and significant role in that determination (see *e.g.* Ferrell & Gresham 1985; Hunt & Vitell,1986). Therefore, measures of ethical judgement and the behavioural

intention were the dependent variable in this study. Future study in this field, in general, may be undertaken by correcting for the limitations of this study.

## Chapter Scheme

The present study, titled "ETHICAL ISSUES AND DILEMMAS IN THE ACCOUNTING PROFESSION: *A STUDY WITH REFERENCE TO PRACTISING CHARTE RED ACCOUNTANTS IN KARNATAKA STATE"*, has been classified into the following six chapters:

**Chapter I:** 'INTRODUCTION' presents a bird's eye view of the study. Accordingly, the following prominent aspects of the study are discussed in detail: conceptual framework, statement of the problem and research questions, objectives, hypothesis development, research method, scope, limitations and chapter scheme.

**Chapter II:** 'LITERATURE REVIEW AND OVERALL CONCEPTUAL FRAMEWORK (MODEL) DEVELOPMENT', first, provides a brief idea of the notion of systems thinking and philosophical thinking followed by a review of the literature on the following areas: business literature, code of ethics and demographic factors. Second, an overview of some of the major ethical issues and dilemmas cited in the literature is presented. Finally, the chapter provides an overall conceptual framework (model) guiding the current study.

**Chapter III:** 'THE ETHICS OF THE ACCOUNTANCY PROFESSION: A THEORETICAL FRAMEWORK' outlines a kaleidoscopic view of the theoretical perspectives in the ethics of the accountancy profession.

**Chapter IV:** 'ETHICAL DILEMMAS: A COMPARISON TO THE CODE OF ETHICS' discusses the focus of the ICAI'S code of ethics for the resolution of ethical dilemmas confronting the PCAs of Karnataka.

**Chapter V:** 'ETHICAL JUDGEMENT AND BEHAVIOURAL INTENTION: THE IMPACT OF PRESCRIPTIVE AND DESCRIPTIVE FACTORS' makes an earnest attempt to examine answers to the following questions:

1) When faced with ethical dilemmas, how the PCAs think about the most realistic way of arriving at the decision (*i.e.*, the resolution of the dilemmas)?

2) When faced with ethical dilemmas, what are the factors most usually considered by the PCAs in the ethical judgement and the behavioural intention?
3) What is the overall impact of a set of prescriptive factors and a set of descriptive factors, taken together, upon the ethical judgement and the behavioural intention?
4) What is the impact of demographic factors upon the ethical judgement and the behavioural intention?

**Chapter VI:** 'SUMMARY AND CONCLUSIONS' presents, first, a brief summary of the key findings in this research; second, it deals with the important professional implications; third, it offers a few suggestions for enhancing the overall ethical environment of the field of the professional practice. Finally, the chapter concludes by providing directions for the extension of the current study into the future.

## Conclusion

Because of the recent accounting scandals, now, the need for the examination of the ethical perception (*i.e.*, the examination of factors influencing the ethical perception) formed by the professional accountants has been felt more than ever before. Any policy decision to prevent the profession from such scandals in the days to come must be proceeded by the study of how the professional accountants form ethical perception. The ethical perception of a situation is a complex process, involving different factors. Different situations may elicit different and, perhaps, undiscovered elements and future research should include attempts to uncover additional factors if they exist. Further, the replication of the current study from the perspective of different professional situations should improve understanding of ethical perception in the practice of accounting. Such an understanding is essential before ethical practice can be moderated or ethical conduct prescribed. Nonetheless, the results of the current study are interesting in their own right, especially, in the Indian context since they suggest that both the ethical judgement and the behavioural intention are important in reducing unethical behaviour. A policy implication of these results is that Indian regulators should consider the importance of the protection of public

interest and the impact of both the prescriptive and the descriptive factors upon both the ethical judgement and the behavioural intention to encourage ethical behaviour amongst PCAs. The impact of demographic factors also needs to be considered if the objective is to create ethical environment in the field of the profession of accountancy.

## Notes

[1] The Southern India region comprises states of Andhra Pradesh, Kerala, Karnataka, and Tamilnadu and the Union Territories of Pondicherry and the Lakshadweep Islands (ICAI, 2006).

[2] The members of the ICAI may be classified as practising and non-practising CAs based on holding certificate of practice.

[3] Schein (1999) describes corporate culture, which also holds equally good for the profession of accountancy, as the "sum total of all the shared, taken-for-granted assumptions that a group has learned throughout its history" (quoted in Rockness & Rockness, 2005, p. 48) from mission and goals to deep underlying assumptions about the nature of truth, human relationships, and human nature.

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